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TAGS: [PGOV](#) [PREL](#) [EINV](#) [ETRD](#) [EC](#)
SUBJECT: AMB RENEWS DIALOGUE WITH PRESIDENT PALACIO

Classified By: PolChief Erik Hall for reasons 1.4 (b&d)

¶1. (C) The Ambassador met with President Palacio on June 21, at her request, for the first time since the Occidental Petroleum (Oxy) decision was announced on May 15. Palacio appeared nervous but eager to re-establish direct dialogue. The Ambassador stressed the importance of GOE cooperation with the Oxy arbitration process, laid down a marker on the dangers of end-of-term corruption, and urged GOE payment of outstanding debts to U.S. firm Machala Power. Palacio confirmed the GOE would participate in the Oxy arbitration hearings, said he would be vigilant against corruption in the outgoing government, and expounded on his preferred "legacy." We hope to use this dialogue to help guide GOE decisions affecting USG interests. End Summary.

¶2. (SBU) The one-on-one 50-minute meeting took place in Palacio's office. Palace photographers were banned. Press noted the Ambassador's presence, and the Embassy confirmed it without revealing details. The GOE has not commented publicly on the meeting.

Atmospherics Good

¶3. (C) After exchanging pleasantries on family and soccer matters, the Ambassador set the visibly nervous president at ease, citing her interest in maintaining a fluid and direct dialogue on a range of issues. Palacio responded enthusiastically, pledging an open door and encouraging the Ambassador to call at any time.

Oxy: GOE Will Participate in Arbitration

¶4. (C) Turning to substance, the Ambassador asked Palacio whether the GOE was prepared to cooperate fully with the international arbitration process on the Oxy case. After a long pause, Palacio said yes, in the end, the GOE would comply. The GOE Solicitor General was in the process of hiring legal representation, who would fully defend the GOE's action on Oxy before the arbitration panel. The GOE had initiated the process of selecting an arbiter, he said. Palacio asked the Ambassador to keep this information "between us for the moment." The Ambassador welcomed and encouraged full GOE participation in the arbitration process, as provided for in the Bilateral Investment Treaty.

¶5. (C) Palacio did not ask about USG reaction to the recent request from the Community of Andean Nations to extend ATPDEA benefits when they expire in December, nor did he raise the stalled FTA talks. However, in discussing the Ecuadorian

election campaign process, the Ambassador noted that the U.S. Congress is also facing elections in November. In this context, our Congress will increasingly become focused on domestic, even local issues affecting their districts. International concerns, such as ATPDEA extension, would by implication garner less attention.

Promoting Other Commercial Interests

¶16. (C) The Ambassador also asked Palacio about GOE intentions regarding payment of Machala Power, a U.S. firm owed millions by the GOE. Palacio said he had "given orders that this matter should be resolved" to end the current international arbitration process and thus avoid further expenses.

End of Term Issues: Corruption Legacy?

¶17. (C) The Ambassador expressed concern to Palacio about "rumors" of increasing corruption as the government enters its last six months in office. Increased vigilance would be needed to prevent corruption from increasing. Palacio agreed, saying he would indeed increase his vigilance, lest corrupt acts damage his government's legacy. (Note: we have received increasing reports about widespread corruption involving the president and his inner circle. Our sources reported that Palacio feared the meeting might be a frontal discussion about those allegations, and that after the meeting the president was deeply agitated by the Ambassador's allusions to the issue. End Note.)

¶18. (C) Palacio explained that he sought a legacy that included a new national health insurance system. Though there would not be time to fully implement the system, he would soon lay the groundwork for such a system with financial support from international financial institutions including the IADB. Turning to the personal, Palacio referred to his own hopes of boning up on new medical research after leaving office, before returning to medical practice.

Reaction

¶19. (U) In the absence of GOE or Embassy comment, press immediately began speculating on the substance of the "secret" meeting.

Comment

¶10. (C) Direct engagement with Palacio remains important to advance USG interests here. By re-initiating dialogue after a significant lull, we hope to maximize our ability to help guide the GOE toward resolution of outstanding disputes, and prevent new disputes from arising.

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